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# Testimony of Christine Schuster, RN, MBA
# President & Chief Executive Officer of Emerson Hospital
# to the Joint Public Hearing of the Health Policy Commission & the Legislature's Joint Committee on Health Care Financing
# Regarding the Potential Modification of the 2020 Health Care Cost Growth Benchmark

## March 13, 2019

Emerson Hospital Health System (Emerson) generally supports the benchmark target at potential gross state product minus 0.5%, or 3.1, but also recognizes that there are several critically important caveats that must be considered in order for this benchmark – or any alternative threshold – to function effectively.

Emerson is committed to creating a care delivery system that provides affordable, accessible, timely, and high quality care in its primary and secondary service area surrounding Concord, Massachusetts. Our healthcare system continues to face major challenges that must be considered to help ensure that providers are not penalized unfairly for circumstances beyond their control. These challenges include:

- Growing cost factors:
  - Drug costs
  - Technology costs
  - Labor costs
  - Aging workforce
  - Physician recruitment
- Continuing changes to the federal landscape
- Administration proposals to allow insurance to be sold across state lines, association health plans, legal challenges to the Affordable Care Act
- Impact of demographics and population health on the benchmark
- Behavioral Health – expansion of services, addressing the opioid epidemic
- Administrative Complexity.

**Drug and Technology Costs**

New drugs and technology can help patients get well, avoid disease, and delay death, but they also drive up spending. Drug costs continue to be one of the most significant drivers of total healthcare expenditure growth (THCE), increasing by 5.0% between 2016 and 2017 and accounting for 36.5% of THCE. Emerson appreciates that the Health Policy Commission (HPC) has made pharmaceutical spending a continuing key focus recommending that the Commonwealth pursue price transparency and accountability for pharmacy benefit managers, develop a process for reviewing high cost drugs, enhance the ability fo MassHealth to negotiate directly with drug manufacturers and continue to include pharmaceutical industry representatives as witnesses at the cost trends hearing.

Despite this needed attention, rising prescription drug costs continue to be a significant factor in the ability of both payers and providers to meet the statutory obligations of Chapter 224. In their efforts to control expenses, payers have introduced additional utilization management strategies and shifted more costs to patients. Providers have targeted treatment alternatives, monitoring prescribing practices, implementing medication adherence strategies, and adopting alternative payment contracts that include pharmacy spending. However, the reality is that absent meaningful price reform and greater accountability in the pharmaceutical industry, it will continue to affect the ability for providers to successfully meet the 3.1% benchmark.

Pricing of new technology is variable but can represent substantial costs that are not built into the baseline. Payers often do not reimbursement for new technology, like teleneurology, telestroke, and virtual visits. Maintaining the ability to provide leading edge technology often requires significant space renovation, new equipment, and training. This items impact a hospital's ability to meet the cost growth benchmark.

**Labor Costs, Labor Shortages, and an Aging Workforce**

Labor accounts for close to 70% of a hospital's operating costs, yet salary and wage growth pressures are not accounted for in the cost growth benchmark. Collective bargaining pressures and keeping pace with a competitive labor market for both clinical and administrative talent can significantly affect a hospital's ability to meet the cost growth benchmark, and must be considered. Increasingly, physicians are becoming employed and adding to the cost base of a hospital. There is a shortage of primary care physicians across the country which also drives labor costs to a higher level.

It is also important to note that Massachusetts has an aging workforce. There are currently 1,200 unfilled RN vacancies across Massachusetts hospitals for which hospitals are actively recruiting. Yet the commonwealth has one of the oldest RN populations in the country, with 51% of RNs over age 50 and 25% over age 60. In fact 4,500 Massachusetts RNs are expected to retire annually, perpetuating a fiercely competitive market for RNs.

At Emerson, due to lack of public transportation infrastructure, we have trouble filling support staff positions such as patient care technicians and dietary and environmental service workers, causing us to pay higher than the market to fill these positions.

**Continued Market Consolidation**

As hospitals and other providers merge and gain increased market share, they are better able to demand higher prices. Increasingly, hospitals are buying up rivals and directly employing physicians, creating larger medical systems. While mergers or partnerships among medical providers or insurers may improve efficiency, consolidation can also have the opposite effect, allowing near-monopolies in some markets and driving up prices and costs.

**Impact of Demographics and Population Health**

***Aging Population***

Simply put, the more people that seek health care and the older those people are, the costlier health care becomes. Therefore, it's not surprising that 50% of the increase in health care spending comes from increased costs for services, especially inpatient hospital care. Nor is it a shock that the two next highest factors when it comes to increased health care spending are population growth (23%) and population aging (12%). According to the Kaiser Family Foundation, 29% of the Massachusetts population is 55 or older and this number is expected to grow. Emerson is experiencing a similar trend in its service area. Data presented by the HPC shows that the percent of residents aged 65 and older is projected to grow from 13.9% to 17%, contributing 0.6% to the growth in total healthcare expenditures between 2016 and 2019. Demographic trends in Massachusetts mean more and more residents are facing choices about their care as they age. Recently, acting Elder Affairs Secretary Robin Lipson told state lawmakers that people are outliving their ability to drive by seven to 10 years, creating mobility challenges and concerns about isolation. EOHHS secretary Marylou Scudders stated that the average life expectancy in Massachusetts rose to 80 years and eight months in 2016, bucking national trends.

Healthcare per capita costs rise exponentially with age and this factor should be accounted for in the measurement of the state's healthcare cost benchmark.[1] Unfortunately, an adjustment has not yet been incorporated into this

[1] "U.S. HEALTH CARE: Facts About Cost, Access, and Quality" (Rand Corporation, 2005). https://www.rand.org/content/dam/rand/pubs/corporate_pubs/2005/RAND_CP484.1.pdf

calculation. We support the Massachusetts Hospital's recommendation that the HPC consider an adjustment to appropriately reflect the higher costs of an older growing population.

***Social Determinants of Health***

Social determinants of health include social, behavioral, and environmental influences on the health of an individual or population. Research indicates that focusing on social determinants can result in improved health outcomes and reduced costs as well. As the HPC and others have recognized, there is a clear need to address how social determinants of health affect healthcare costs. We applaud the HPC for noting in its 2018 Cost Trends Report that commercial payers should replicate and expand payment innovations to provide flexible funding to medical providers to address health related social needs for patients. Failure to address social determinants can result in healthcare disparities that affect patient outcomes, productivity, and, ultimately, add costs across the healthcare continuum.

Hospitals care for patients 24 hours per day/7 days per week and, along with physician and community partners, are making significant investments in services to address the social determinants that affect health. Investing in these interventions that address social as well as clinical needs is the right thing to do, but it is not free. Providers are prepared to commit operating dollars to fund interventions connecting individuals to social supports, but it can often take years to realize the benefits. Similarly, as providers embark on forming ACOs and take on greater amounts of risk, there must be a recognition that addressing unmet social needs will invariably cost money. Emerson recommends the HPC use caution when setting the appropriate benchmark, given the uncertain timeframes related to the realization of these cost-saving measures and the commitment of resources for these efforts.

**Behavioral Health**

The Commonwealth recognizes the importance of improving care for behavioral health, including substance use disorders and opioid addiction. Currently, providers cross-subsidize underpaid behavioral health services by relying on revenue from those services that are reimbursed at a higher level. Targeting cuts for higher-margin services in an effort to reduce the cost growth benchmark has the potential to result in fewer resources to support underfunded services, and could potentially result in unintended consequences for expanding behavioral healthcare. Emerson encourages the HPC to recognize the methods by which providers support underfunded services when determining the appropriate benchmark.

Regarding the opioid crisis, Massachusetts continues to be one of the hardest hit states. The effects of this crisis on patient care and health care costs going forward remains of grave concern, particulary the increasing burden placed on emergency services to care for overdose victims and puts a strain on already limited resources.

**Commercial Insurance Market**

When considering the ability to meet the cost growth benchmark, it is important to recognize that insurer benefit design can significantly impact providers. As the prevalence of high deductible plans grow (currently representing 28% of the private commercial market according to CHIA) the resources needed to collect patient liability after insurance and the amount of resulting bad debt has grown as well. Additional costs are also generated by administrative complexities such as prior authorization requirements that differ for every carrier, increasing volumes of audits and denials, redundancies in utilization management particulary in ACO arrangements and other administrative burdens. Lastly, Emerson also expresses continuing concern regarding commercial insurers using the 3.1% benchmark as a cap on any rate increases; this is particularly problematic among lower paid community hospitals and was never meant to be used in that way.

**Administrative Complexity**

Over time, the health care system has becoming increasingly complex with multiple payers with multiple insurance products, each with different coverage, co-payments, deductibles, eligibility standards, claim-filing requirements, and record-keeping standards. Additional key problems causing administrative complexity are the multiple standards for medical licensure, credentialing, hospital privileges, drug prescribing, coding, and disease management

protocols. This lack of standardization causes duplication of work and adds to hospital costs through the need for added staff to meet all requirements.

In summary, Emerson supports the collective goal to continue to provide high-quality care and universal access, while at the same time ensuring affordability. While we support the aggressive 3.1% benchmark, it is critical to recognize that there are factors – many of which are outside of direct control of providers – that could make meeting this target difficult to attain.

Thank you for the opportunity to offer testimony on this matter. If you have any questions or require further information, please do not hesitate to contact me, Christine Schuster, at (978) 287-3111 or cschuster@emersonhosp.org.